



THE CITY OF SAN DIEGO

## Redevelopment Agency's Report

DATE ISSUED: February 2, 2005

REPORT NO. RA-05-3

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Docket of February 8, 2005

SUBJECT: Fiscal Year 2005 Redevelopment Agency Budget Amendment for  
State ERAF and Loan Repayments

### SUMMARY

Issue –Should the Redevelopment Agency approve an amendment to the Fiscal Year 2005 Redevelopment Agency budget to increase appropriations in the amount of \$2,106,659 to provide funds for the State Educational Revenue Augmentation Fund (ERAF), and \$300,000 to provide loan repayments to the City?

Executive Director's Recommendation – That the Redevelopment Agency should approve an amendment to the Fiscal Year 2005 Redevelopment Agency budget to increase appropriations in the amount of \$2,106,659 to provide funds for the State Educational Revenue Augmentation Fund (ERAF), and \$300,000 to provide loan repayments to the City.

Other Recommendations – At their meeting of December 15, 2004, the CCDC Board voted to recommend that the Redevelopment Agency approve a Fiscal Year 2005 budget amendment in the amount of \$1,420,659 and \$300,000 for the Centre City and Horton Plaza Redevelopment projects.

Fiscal Impact –The Fiscal Year 2005 State ERAF contribution from the Redevelopment Agency of the City of San Diego totals \$5,394,679. This amount has been allocated among the Agency's project areas based on the percentage of tax increment revenue generated by each project area, resulting in \$3,920,659 due from the Centre City Development Corporation (CCDC), \$1,167,985 attributable to the City Redevelopment project areas, and \$306,035 required of the Southeastern Economic Development Corporation (SEDC). A portion of these funds were included in the adopted budget based on the ERAF level from the prior year. Additional budget authorization is needed, since the statewide ERAF shift was increased following the adoption of the Redevelopment Agency budget.

### BACKGROUND

With the State's growing budget deficit, the Governor and the Legislature have explored several measures to close the budget gap. Redevelopment agencies contributed funds to ERAF during the State's budget shortfalls starting in the early 1990's. In 2003, the California State budget required redevelopment agencies to shift \$75 million statewide in property tax revenues to ERAF. The shifts to ERAF save the State's General Fund because the fund transfer into the ERAF offsets that amount imposed by Proposition 98's State school funding requirement.

The table below summarizes the annual State ERAF requirements for redevelopment since 1993.

<b>Annual State ERAF Requirements for Redevelopment</b>					
<b>Fiscal Year</b>	<b>CCDC</b>	<b>City</b>	<b>SEDC</b>	<b>Total Agency</b>	<b>Total Statewide</b>
1993	\$2,504,245	\$54,095	\$149,231	\$2,707,571	\$200,000,000
1994	\$900,089	\$18,863	\$51,568	\$970,520	\$65,000,000
1995	\$900,304	\$18,868	\$51,580	\$970,752	\$65,000,000
2003	\$1,081,132	\$190,281	\$80,642	\$1,352,055	\$75,000,000
2004	\$2,010,565	\$487,663	\$148,791	\$2,647,019	\$150,000,000
<b>2005</b>	<b>\$3,920,659</b>	<b>\$1,167,985</b>	<b>\$306,035</b>	<b>\$5,394,679</b>	<b>\$250,000,000</b>
<b>TOTAL</b>	<b>\$11,316,994</b>	<b>\$1,937,755</b>	<b>\$787,847</b>	<b>\$14,042,596</b>	<b>\$805,000,000</b>

## DISCUSSION

Agency staff has worked closely with the Governmental Relations Department, San Diego's Sacramento representatives, and the California Redevelopment Association (CRA) to provide information and express concerns about the impacts the ongoing ERAF shifts have had on local redevelopment efforts. The Governmental Relations Department and the City's representatives in Sacramento, along with CRA, conveyed the following position to key members of the Legislature:

- A one year contribution to ERAF, rather than a long term contribution commitment, is necessary to retain redevelopment as a local government tool
- The statewide ERAF contribution should not exceed \$250 million
- Any decision regarding long term transfer of redevelopment funds should be considered as a part of the fiscal reform debate

CRA also proposed technical budget amendments that would allow local redevelopment agencies to increase their debt cap and extend the debt limit in order to meet a one-time ERAF shift without robbing low- and moderate-income housing funds or general funds.

As a result of these efforts, Senate Bill1096, the State budget trailer bill dealing with local government, was adopted in August 2004, and included several important provisions for redevelopment with regards to ERAF, as follows:

- Redevelopment agencies are required to transfer \$250 million statewide to the Education Revenue Augmentation Fund (ERAF) for each of the next two fiscal years (2005 and 2006).
- Funds set aside for housing (20% of gross tax increment received) are not reduced as a result of making ERAF payments.
- If an agency has insufficient funds to make its payment, it may borrow up to 50% of the current year housing set-aside amount to make its payment. The amount borrowed must be repaid within 10 years of the last ERAF payment.
- Any agency having to make an ERAF payment may have its redevelopment plan amended by ordinance to extend the time limit on the effectiveness of the plan
- ERAF payments made in FY 2004-05 and FY 2005-06 can be subtracted from revenues that count against a redevelopment plan's tax increment limit. (Applies to older plans.)

ERAF payments are due to the County by May 10 of each year. Based on current estimates for tax increment revenues, it is recommended that the ERAF obligation be fully funded from current Agency revenues.

The Agency's total obligation of \$5,394,679 is proposed to and may be allocated as shown below, based on the percentage share of tax increment revenues generated in Fiscal Year 2003.

<b>FY 2005 ERAF Allocation among Project Areas</b>			
<b>Project Area</b>	<b>2003 Tax Increment</b>	<b>% of Total</b>	<b>ERAF Allocation</b>
Barrio Logan	\$74,823	0.13%	\$7,262
City Heights	\$4,619,825	8.31%	\$448,348
College Community	\$181,190	0.33%	\$17,654
College Grove	\$482,411	0.87%	\$46,817
Crossroads	\$0	0.00%	\$0
Linda Vista	\$104,940	0.19%	\$10,184
Naval Training Center	\$489,760	0.88%	\$47,531
North Bay	\$2,526,001	4.54%	\$245,145
North Park	\$2,065,855	3.72%	\$200,489
San Ysidro	\$1,489,510	2.68%	\$144,555
<b>Subtotal City</b>	<b>\$12,035,035</b>	<b>21.65%</b>	<b>\$1,167,985</b>
Centre City	\$34,233,480	61.59%	\$3,322,318
Horton Plaza	\$6,165,366	11.09%	\$598,341
<b>Subtotal CCDC</b>	<b>\$40,398,846</b>	<b>72.68%</b>	<b>\$3,920,659</b>
Central Imperial	\$948,752	1.71%	\$92,075
Gateway Center West	\$252,200	0.45%	\$24,476
Mount Hope	\$1,162,241	2.09%	\$112,794
Southcrest	\$790,225	1.42%	\$76,690
<b>Subtotal SEDC</b>	<b>\$3,153,418</b>	<b>5.67%</b>	<b>\$306,035</b>
<b>TOTAL</b>	<b>\$55,587,299</b>	<b>100.00%</b>	<b>\$5,394,679</b>

Based on this allocation, additional budget authorization in the amount of \$1,420,659 is requested for the CCDC project areas, and an additional \$686,000 in budget authorization is requested for the City Redevelopment project areas. No additional budget authorization is requested for the SEDC project areas, and funds will be allotted for this purpose from within current budget levels.

The State legislation related to ERAF provides for many options to mitigate the financial impact in both the short- and long-term. Agency staff will be reviewing these items to determine if opportunities exist to implement these options to the Agency's advantage. These items will be brought forward to the Redevelopment Agency for review and approval if action is needed for implementation.

#### Budget Amendment for City Loan Repayment

The City is in the process of designing improvements to public safety facilities and has requested funds for the design work. In addition, it has been requested that CCDC provide funds to assist in funding the Neil Good Day Center. It is proposed that CCDC repay \$300,000 consisting of \$225,000 in Capital Outlay Funds and \$75,000 of sales tax funds in the Centre City and Horton Plaza Redevelopment Projects. These payments may be made as a result of additional interest added to outstanding loan amounts from Fiscal Year 2003-2004.

#### SUMMARY

The State's budget included the shift of \$250 million in property tax revenues from redevelopment agencies statewide for both Fiscal Year 2005 and 2006 to the State Education Revenue Augmentation Fund to the benefit of schools. San Diego's share totals \$5,394,679. Additional budget authorization is required as this amount exceeds the levels included in the Redevelopment Agency budget for this year. The Redevelopment Agency's Fiscal Year 2006 Budget will include this higher level, as it is anticipated that this requirement will again be imposed next year. The State legislation includes the ability to take actions to mitigate the impact of ERAF on the Redevelopment Agency, and staff will review these options to determine if any can be implemented to the benefit of the Agency.

Respectfully submitted,

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Carolyn Y. Smith  
SEDC President

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Debra Fischle-Faulk  
Deputy Executive Director

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Peter J. Hall  
CCDC President

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Approved: Hank Cunningham  
Assistant Executive Director